

GENERAL PURPOSE REVENUE FORECAST

The main focus of the strategic financial planning process is on General Purpose Revenues (Discretionary Funds). General Purpose Revenues fund about 12% or \$526.9 million of the fiscal year 2004-05 \$4.5 billion County Budget (Figure 1). Figure 2 provides a distribution of General Purpose Revenues by source.

Figure 1

**FY 04-05 Total Revenue Budget
\$4.5 Billion**

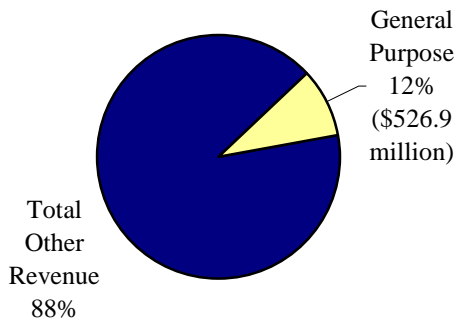
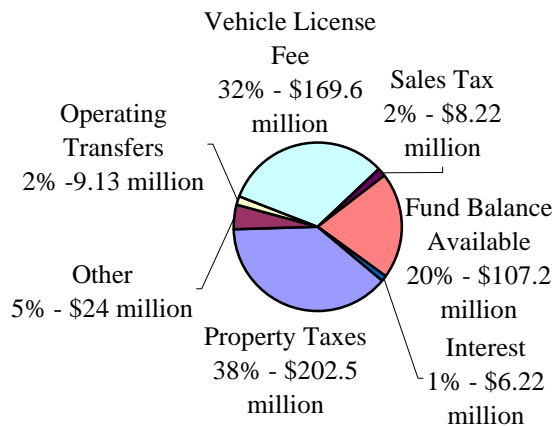


Figure 2

**General Purpose Revenue (Discretionary Funds)
FY 04-05 Total = \$526.9 million**



Each year, Drs. James Doti and Esmael Adibi of Chapman University provide the County with an economic forecast and ten-year General Purpose Revenue forecast. The General Purpose Revenue forecast includes property tax, motor vehicle license fees, interest, sales and other taxes, property tax administration and franchise and rents revenue. Their September 2003 forecast has been incorporated into the 2004 Strategic Financial Plan through fiscal year 2012-13 and can be found in Section XIV Appendix C.

The County Executive Office (CEO) and Auditor-Controller staff forecasts the balance of the General Purpose Revenues, comprised of namely miscellaneous, operating transfers

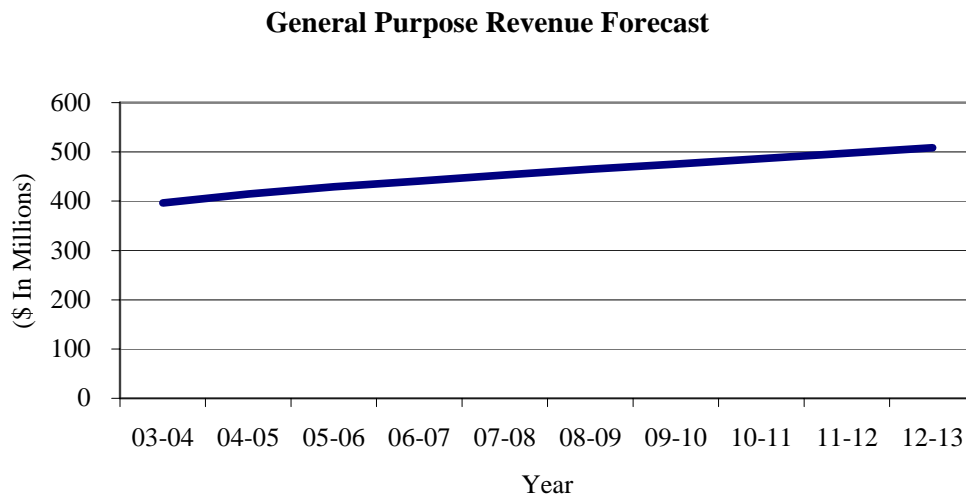
and one-time revenues. Operating transfers are revenues received from a fund outside the General Fund, e.g. interest earned on the 1995 Refunding Recovery Bond Reserve is transferred (subject to bond covenants) to the General Fund on an annual basis.

It should be noted that the assumptions used in the September 2003 Chapman forecast closely mirrored actual trends in Orange County, thus eliminating the need for another update in a relatively short period of time. Recently, the Auditor-Controller issued their estimates (Appendix D) for fiscal year 2004-05. These estimates, while slightly differing from the Chapman forecast, are being used for the first year of the Strategic Financial Plan. The information provided for the remaining years of the forecast utilizes figures in the Chapman forecast.

General Purpose Revenue Forecast

Figure 3 illustrates the General Purpose Revenue Forecast growth trends:

Figure 3



In the current fiscal year, revenue excluding operating transfers, one-time revenue and Fund Balance Available is projected to be approximately \$396.93 million compared to a budget estimate of approximately \$419.69 million. On-going revenue is forecast to grow on average over the next five years at about 3.26% per year.

Major Sources of General Purpose Revenue

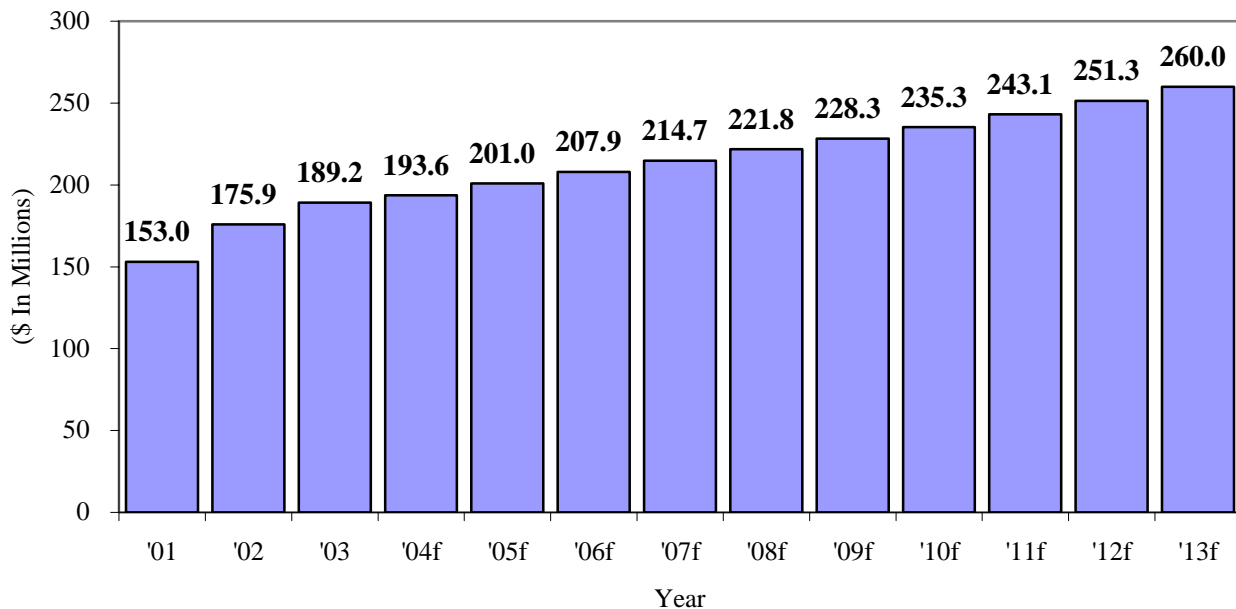
General Purpose Revenue includes the following sources (listed in order of contribution amounts):

1. Property Taxes
2. Motor Vehicle License Fees
3. Interest Earnings
4. Sales and Other Taxes
5. Property Tax Administration Fees
6. Franchise and Rents Revenue
7. Miscellaneous Revenue

Ninety-eight (98%) of General Purpose Revenues are comprised of five sources: Property Taxes, Motor Vehicle License Fees, Interest, Sales and Other Taxes and Property Tax Administration. Figure 4 illustrates the projected growth of property tax revenues over the forecasted period.

Figure 4

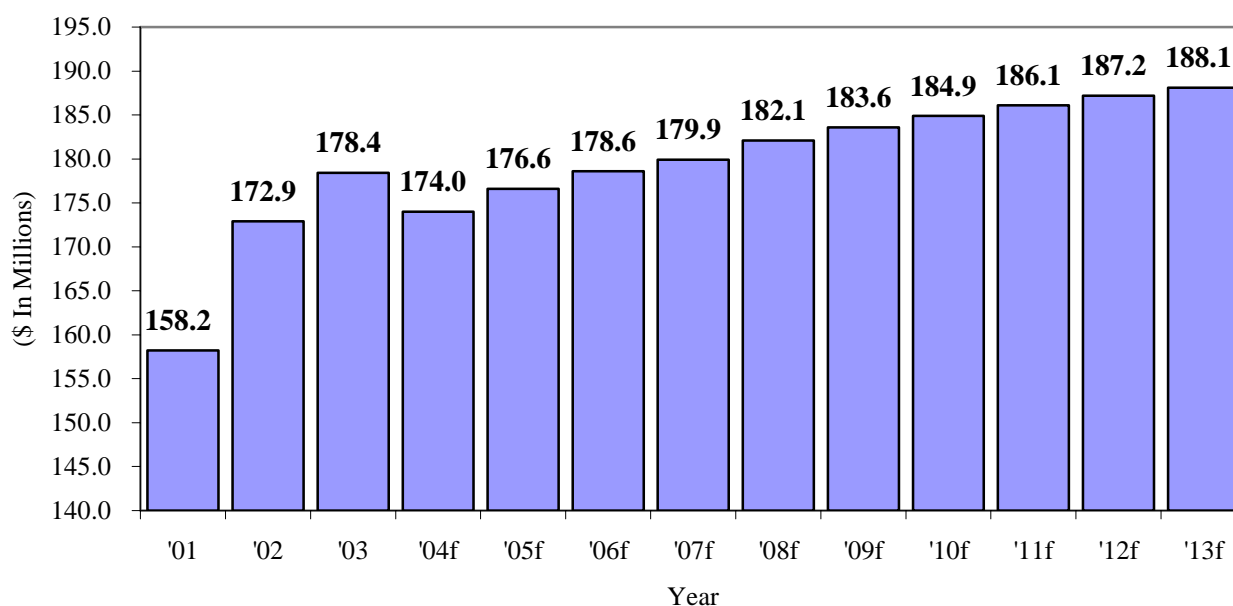
Total County Property Tax Revenues



Property Taxes comprise about forty-nine percent (49%) of all General Purpose Revenues. On average, the annual increase over the forecast period is about 3.23%. Property Taxes reflect property values and a decline in assessed valuations would adversely affect the County's discretionary revenues. Incorporations also adversely affect County Property Tax Revenue, however, revenue neutrality payments from newly incorporated cities and service delivery reductions by County departments balance reduced Property Tax Revenue. The Chapman forecast is adjusted for recent incorporations.

Figure 5

Total Motor Vehicle License Fees



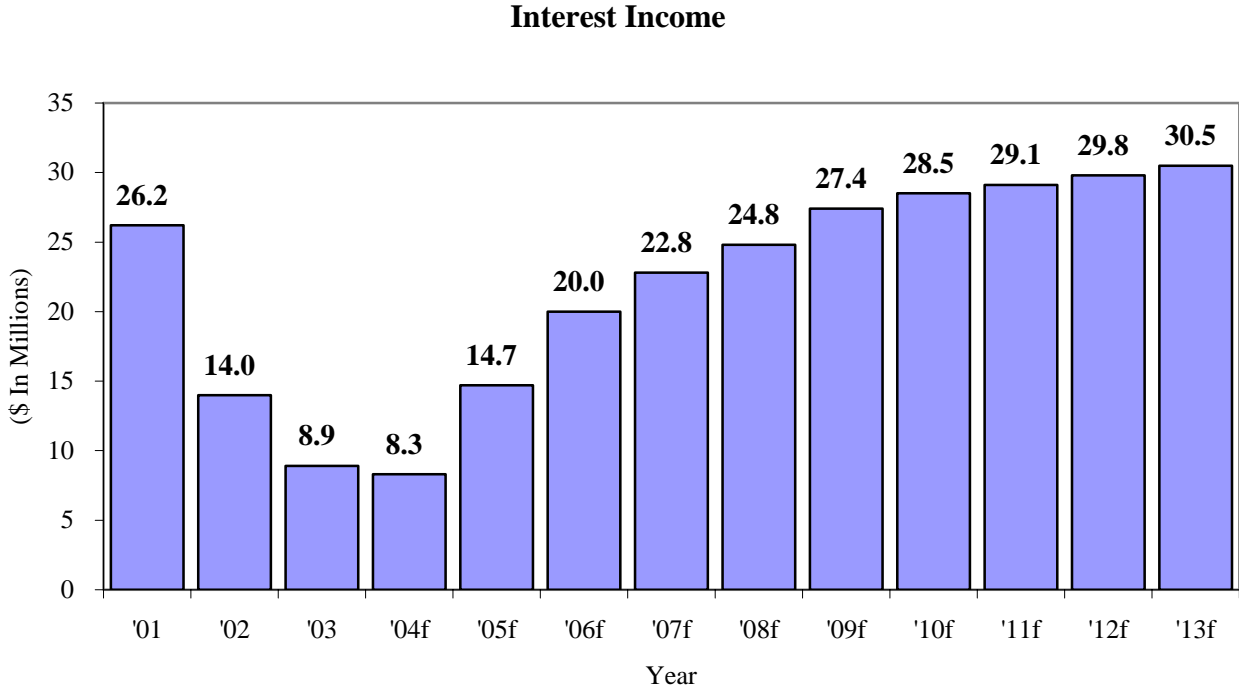
Motor Vehicle License Fee (VLF) revenue is the second most important source of General Purpose Revenue, comprising about forty-four percent (44%) of the total (Figure 5). In October 2003, the Governor, by Executive Order, reduced by two-thirds the annual Motor Vehicle License Fees charged by the California Department of Motor Vehicles to car and truck owners. The State, however, subsequently restored all of the County's annual VLF by back-filling from the State General Fund and will continue to do so in the future. VLF revenue along with growth in a portion of the State Sales Tax is the source

of Realignment Revenue (not shown here) that is a major source of funding for the County's Social Services and Health Care Agencies.

Currently about \$28.3 million of Vehicle License Fees that would otherwise come to the County from the State, are "intercepted" by the State Controller and remitted directly to the trustee bank to pay a portion of the annual debt service on the 1995 Refunding Recovery Bonds.

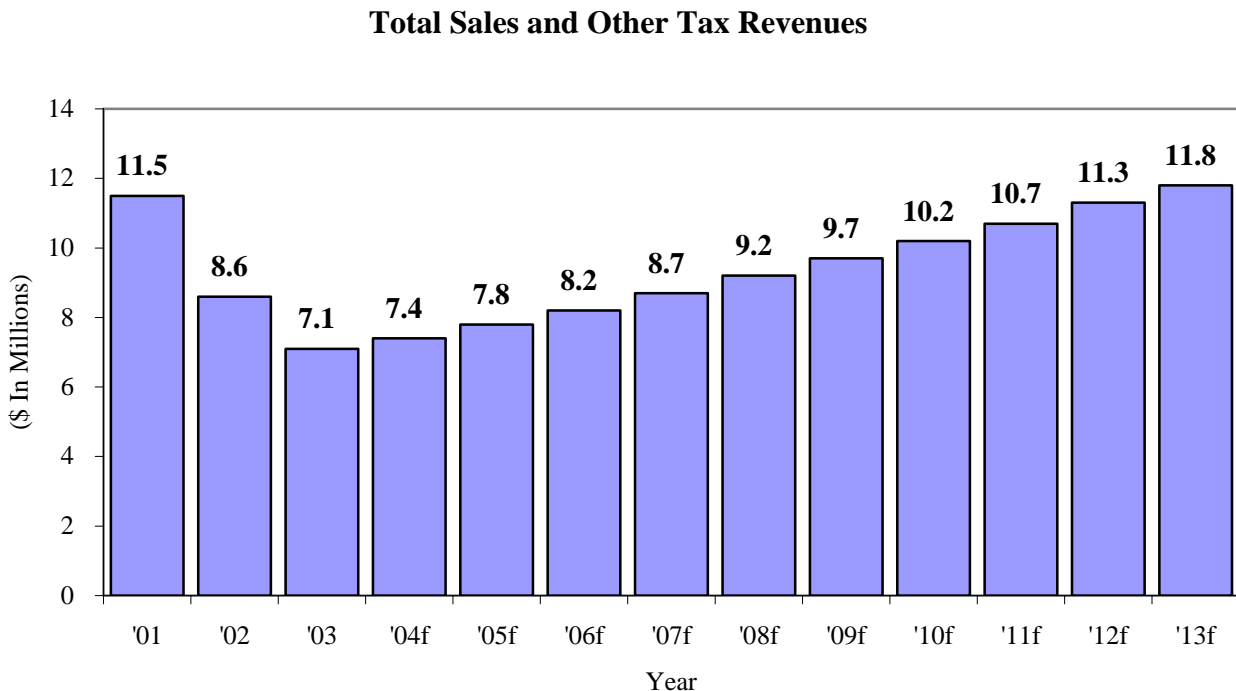
The County's VLF is also pledged to the 1996 Recovery Certificates of Participation. This current year, about \$18 million of VLF revenue will be used to pay a portion of the debt service on the 1996 Recovery bonds. VLF is forecasted to grow annually at an average rate of 0.5% over the forecast period. VLF is adversely affected by decreases in sales or leasing of new cars and trucks.

Figure 6



Interest is earned on certain County funds invested by the Treasurer in strict accordance with the Investment Policy Statement. The average maturity of the County's investments is 90-days. The interest forecast in the 2004 Strategic Financial Plan uses a forecast of interest rates on 90-Day United States Treasury Bills. The interest projection for the current fiscal year is \$8.3 million (Figure 6). Because of decreases in short-term interest rates by the Federal Reserve Board in their efforts to stimulate the economy, actual interest earned in fiscal year 2003-04 may be lower than the projected, estimated to be \$5.8 million. Interest earnings comprise about 2% of total General Purpose Revenue and are forecast to grow annually at an average of 15% over the forecast period. For fiscal year 2004-05, the Strategic Financial Plan forecast is using an estimate of \$6.2 million, as compared to \$14.7 million in Figure 6, based on an assumed interest rate of 1.4%.

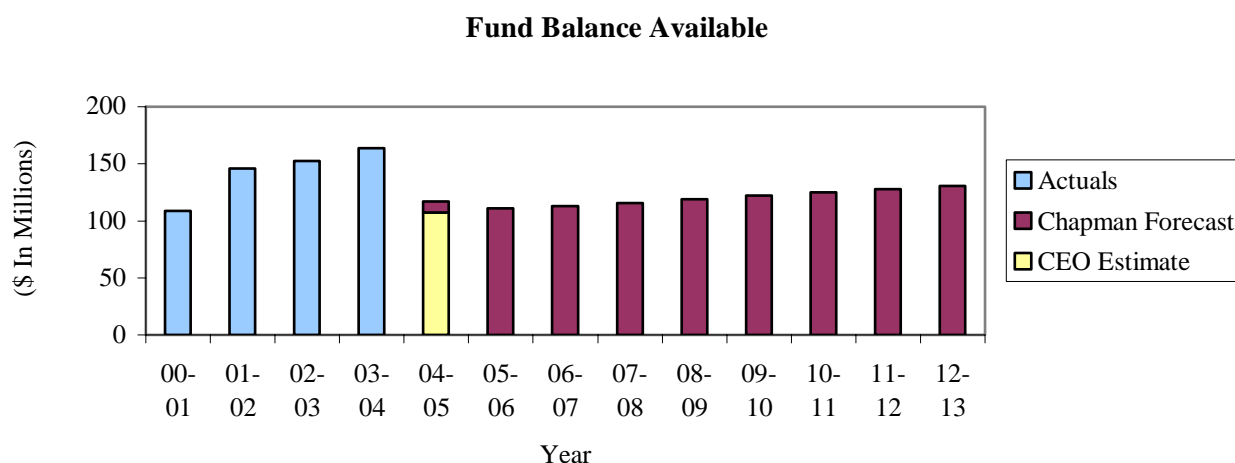
Figure 7



Sales Tax Revenue results from the collection and distribution of the local portion of the State Sales Tax. The sales tax is levied on purchases and certain leases that occur in the unincorporated areas of the County. The County sales tax revenue included in Figure 7

above does not incorporate the half-cent tax levied for Public Safety. The Public Safety Sales Tax is distributed separately and is restricted to public safety uses. The County's sales tax is adversely affected by incorporations. The forecast has taken into consideration revenue losses due to incorporations. If the national economy continues to deteriorate, it is anticipated that, at least in the near term, consumer confidence will remain low and result in reduced sales. Sales Tax Revenues comprise about 2% of total General Purpose Revenues and are forecast to grow at an average annual rate of 5.2%.

Figure 8



Fund Balance Available (FBA) is a funding source that is carried over from the end of the previous fiscal year (Figure 8). It represents revenues available from all funding sources to finance the budget after deducting all reserves and designations. If all revenues and expenditures occurred as planned in the annual budget, the FBA would be zero. However, in reality there are under and over estimations of revenues and expenditures that result in a balance that can be carried forward to the next fiscal year.

Often a portion of the carryover occurs because planned projects, e.g. construction projects, matched with funding in a given fiscal year are delayed into the following fiscal year. These delayed projects are re-budgeted with FBA, which provides the primary source of funding. Where FBA is not tied to specific projects, it is available as one time

money to fund new items or to augment reserves. The current Strategic Priority Reserves in the General Fund, approximately \$90 million, was created from FBA.

For the past three years, the FBA forecast provided by Chapman University has underestimated the actual amount of FBA that was available at year-end. For the upcoming fiscal year, the 2004 Strategic Financial Plan uses an estimate based on Auditor-Controller calculations (Appendix D) of \$107 million. The Strategic Financial Plan uses the Chapman forecast thereafter as denoted in the chart above.

The General Purpose Revenue forecast is an important part of the Strategic Financial Plan process because it provides forecasting on the portion of the budget that the Board of Supervisors has discretion over.